South Carolina Retirement Systems Overview

September 2011

SC Budget and Control Board
South Carolina Retirement Systems

Retirement Systems Overview

- Five defined benefit retirement plans
  - South Carolina Retirement System (SCRS)
  - Police Officers Retirement System (PORS)
  - General Assembly Retirement System (GARS)
  - Judges and Solicitors Retirement System (JSRS)
  - National Guard Retirement System (NGRS)
- One defined contribution retirement plan
- More than 458,000 members
- Approximately 850 participating employers

Retirement Systems Overview

Who Participates in the Plans

- SCRS is largest plan with more than 190,000 active members, 111,000 annuitants, and 157,000 inactive members.
- PORS is second largest plan with more than 26,000 active members, 12,000 annuitants, and 12,000 inactive members.

Member data as of June 30, 2010, actuarial valuation.

Retirement Systems Overview

Participating employers include:

- State government
- Public school districts
- Higher education institutions
- Local/political subdivisions of government
- Quasi-governmental organizations (i.e., Santee Cooper)

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Retirement Systems Overview

- Basic methodology for all defined benefit plans:

Employer/Employee Contributions + Investment Earnings =

Benefit Payments + Expenses

Covered employers are responsible for the remittance of employer and employee contributions. The S.C. Retirement System Investment Commission is responsible for management of the assets of the Systems' trust funds.

Retirement Systems Overview

- **Key Terms**
  - **Annuitant –** person receiving a monthly benefit
  - **Covered Employer –** organization that participates in the retirement plans
  - **Active Member –** employee currently working for, making retirement contributions and earning service credit through a covered employer
  - **Inactive Member –** employee for whom regular retirement contributions have not been received for at least one fiscal year and funds remain in account
  - **Employer Contribution Rate –** the percentage of payroll that a covered employer contributes to the retirement plans
  - **Employee Contribution Rate –** the percentage of earnable compensation an employee contributes to his respective retirement plan

Retirement Systems Overview

- **Key Terms**
  - **30-Year Amortization Period –** maximum number of years over which a retirement plan's unfunded liability may be amortized (GASB standard)
  - **Funded Ratio –** the ratio of a retirement plan's assets to liabilities
  - **Unfunded Actuarial Liability –** excess of actuarial accrued liability over the actuarial value of a retirement plan's assets
  - **Employer Normal Cost –** employer's portion of total normal cost of benefits earned by active members during current fiscal year
  - **COLA –** cost-of-living adjustment
  - **Investment Assumption Rate of Return –** the rate of investment return a plan expects to earn in a given year and the discount rate used to determine plan liabilities
  - **Smoothing Concept –** the spreading over a period of years of a plan's investment gains and losses to lessen rate volatility

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Retirement Systems Overview

- **SCRS Benefit Formula**
  - Years of service multiplied by 3 years average final compensation multiplied by 1.82 percent benefit multiplier
  - **Example**
    - (28 years x $50,000) x 1.82% = $25,480 (annual retirement benefit)

- **PORS Benefit Formula**
  - Years of service multiplied by 3 years average final compensation multiplied by 2.14 percent benefit multiplier
  - **Example**
    - (25 years x $50,000) x 2.14% = $26,750 (annual retirement benefit)

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- **Minimum Eligibility Period –** Member must have five years of earned service to be eligible to apply for monthly benefits
- **Retirement Age** (for unreduced benefits)
  - **SCRS –** Age 65 with at least five years of earned service or at any age with 28 years of service
  - **PORS –** Age 55 with at least five years of earned service or at any age with 25 years of service

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Plans' Disability Protection

- Occupational disability
  - Member may apply for disability retirement if he becomes physically or mentally incapable of performing the regular duties of his job and the disability is likely to be permanent (occupational disability).
- Must have at least five years of earned service

Social Security Disability

- Total and permanent disability
  - Person must prove that disability has lasted at least 12 months and prevents them from performing any substantial gainful activity
- Must also have enough work credits to qualify for payments

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- Under current statute, the plans award cost-of-living adjustments (COLAs) based on Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) but limited to up to 2 percent with ad-hoc potential.
- No COLA awarded if CPI-W is negative

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Plans' Trust Fund

- SC Budget and Control Board functions as fiduciaries/trustees of the plan
- Assets are managed by the SC Retirement System Investment Commission, which was established in 2005 and immediately began fund diversification to allow for higher investment returns
- Trust fund pays all expenses of maintaining the plan
- Effective July 1, 2012, employers are scheduled to pay 9.68 percent (SCRS) or 11.995 percent (PORS) of their payroll to the trust fund (rate includes incidental death benefit)
- Once in the plan, there is no provision which allows employers to terminate this arrangement
- Trust fund assets cannot be diverted for any purpose other than the payment of Retirement Systems' obligations

Retirement Systems Overview

How the Plans Are Funded

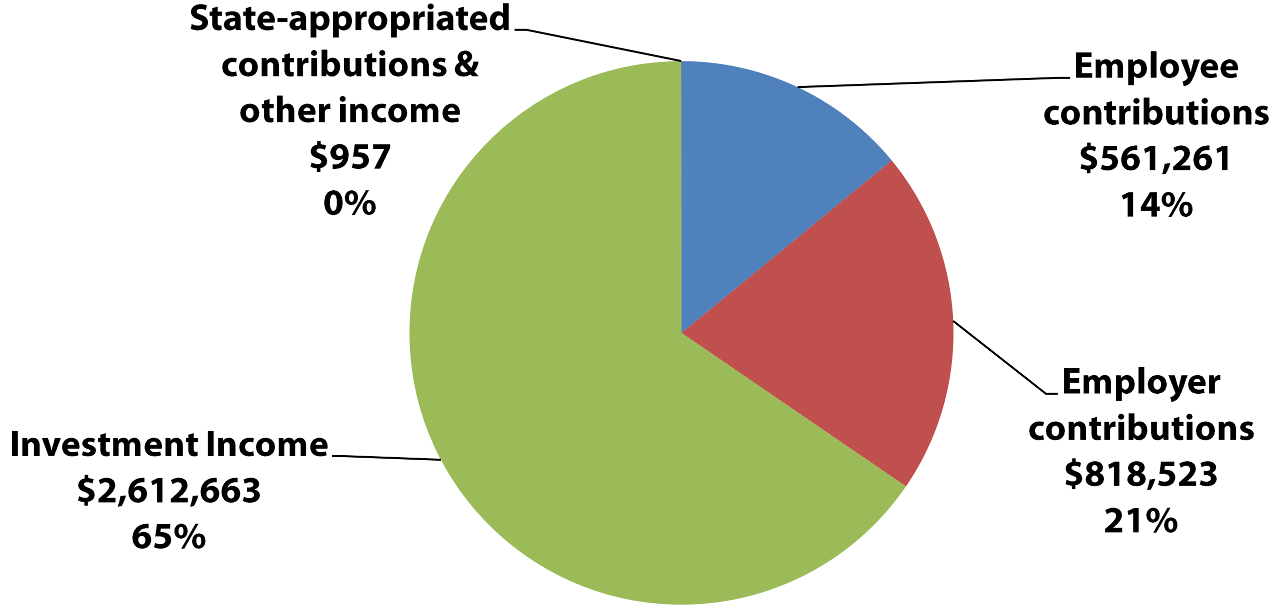
- Employee and employer contributions are significant sources of income to the state's retirement plans.
- Investment income, however, is the largest component of our plans' funding over time.

Retirement Systems Overview

How the Plans Are Funded

SCRS Additions to Pension Trust Funds 2010

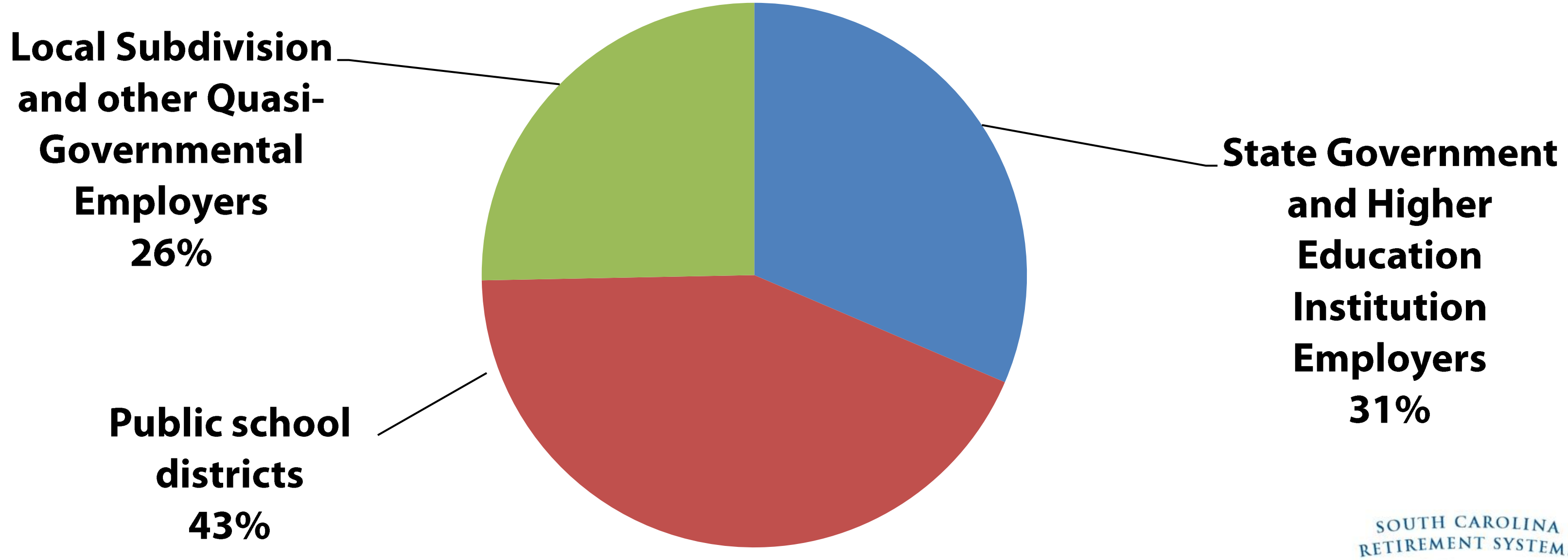
Dollar Amounts in Thousands



Retirement Systems Overview

Employer Contribution Sources

Types of Participating Employers as a Percentage of Payroll



Retirement Systems Overview

Retirement Funding Legislation

- General Assembly enacted Act 153 in 2005 and Act 311 in 2008:
  - Created S.C. Retirement System Investment Commission (2005)
  - Increased employee contribution rate
  - Increased employer contribution rate July 1, 2006, and July 1, 2007
  - Required retired members who return to covered employment to make same employee contribution as an active member (2005)

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Retirement Funding Legislation

- Act 311 of 2008 also addressed the recommendations of the State Treasurer's COLA Task Force. Recommendations included:
  - Increase the assumed rate of investment return to 8 percent from 7.25 percent.
  - Increase the annual automatic COLA from 1 percent to the increase in the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) up to 2 percent for SCRS retirees and provide 2 percent automatic COLA for PORS retirees.
  - Restrict ad hoc COLAs beyond the 2 percent based upon all of the conditions listed on the next slide being met.

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Current Requirements for Ad Hoc COLAs

- The amortization period for the prior year unfunded liability is at 25 years or below; and
- The estimated funded ratio in the current year, after the granting of an additional ad hoc COLA does not decrease; and
- The estimated amortization period in the current year, after granting the additional ad hoc COLA, is still reduced by at least one year; and
- No increase in employer contribution is required to support the granting of the additional ad hoc COLA.

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Reversion to Former Statute Regarding COLAs

- Should the Budget and Control Board accept the actuary's recommendations and reduce the assumed rate of return below 8 percent, the current laws providing for 2 percent automatic COLAs in PORS and SCRS would be automatically repealed and result in the reversion of the COLA laws to the statute in effect immediately prior to the passage of Act 311 of 2008. The respective COLA provisions for SCRS and PORS upon reversion will be as follows:
  - 1) Section 9-1-1810 (SCRS) will provide for a 1 percent automatic COLA with the possibility of an ad hoc COLA up to the CPI (4 percent cap) if the increase would not result in extending the amortization period beyond 30 years, and;
  - 2) Section 9-11-310 (PORS) will not provide for a automatic COLA, but for an ad hoc COLA of up to the increase in the CPI (4 percent cap) as long as the increase did not require an increase in the employer contribution rate.

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